

**Internal Revenue Service**

**Department of the Treasury**

District  
Director

1100 Commerce St., Dallas, Texas 75242

Date: NOV 24 1995

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

A review of the information submitted reveals that you incorporated in the State of [REDACTED] on [REDACTED]. Your organizing document was amended to state that your organization is organized to conduct and be engaged in charitable, benevolent, educational, civic, social, fraternal, literary, cultural, athletic, scientific and like activities; primary activities which include providing alcoholic beverage service to the members of the club. More specifically social and athletic activities to include racquetball tournaments SK fun runs, golf outings, water volleyball mixers, and annual anniversary parties.

[REDACTED] is affiliated with [REDACTED], a for profit entity. Members of [REDACTED] automatically become members of [REDACTED]. [REDACTED] maintains the private club liquor license for [REDACTED], a for profit athletic club and is managed by [REDACTED] - a sister organization which leases the lounge space to [REDACTED]. The terms of the lease state that [REDACTED] (Lessee) shall pay to [REDACTED] (Lessor) the sum of [REDACTED] percent of Gross Receipts from the sale of alcoholic beverages per month. The Officers of [REDACTED] are: [REDACTED] - [REDACTED] - Vice President - Finance/Accounting, [REDACTED] - [REDACTED] - Vice President - Finance/Accounting, and [REDACTED]. Your financial data shows that your primary source of revenue is from the sale of liquor and contains an expense titled Reimbursed Payroll Expense.

In your letter dated [REDACTED] you make the following statements:

1. [REDACTED] does not have organized social activities at this time.
2. Only one class of members exists -Regular. There are currently no membership dues. There are no publications, etc. regarding the organization.
3. The organization does not have a membership application.
4. You state that only private clubs can obtain liquor licenses in a designated

DRY area (area that forbids the sale of alcoholic beverages in public facilities). [REDACTED] was formed for the benefit of dues paying members of [REDACTED] a for profit entity. [REDACTED] is 100% owned by [REDACTED] - a subsidiary of [REDACTED]. [REDACTED] is not owned or under any control by [REDACTED]. [REDACTED] receives [REDACTED]% of all guest checks at [REDACTED] to replenish the liquor account.

5. [REDACTED] has [REDACTED]% corporate membership. The corporations designate which employees or executives are members of [REDACTED]. Actual breakdown of corporate verse individual revenue is not available. 6. A copy of the managing agreement was requested but not provided.

Internal Revenue Code section 501(c)(7) provides for the exemption of "clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Revenue Ruling 66-225, 1966-2 C.B. 227 holds that a nonprofit organization which provides entertainment for its members does not qualify for exemption under section 501(c)(7) of the Internal Revenue Code of 1954, where it is controlled by a taxable corporation and operated as an integral part of such corporation's business.

In *Greater United Navajo Development Enterprises, Inc v. Commissioner*, 74 T.C. 69 (1980) it was held that two corporations with the same directors, officers and staff were regarded by both the IRS and the court as one organization.

Revenue Ruling 74-489, 1974-2 C.B. 169 holds that a country club that issues corporate membership is dealing with the general public in the form of the corporations' employees. Gross receipts from such members will be a factor in determining whether the club qualifies as a social club under section 501(c)(7) of the Code.

Revenue Ruling 69-527, 1969-2 C.B. 125 holds that not only must an organization seeking exemption under section 501(c)(7) prove that its members are bound together by a common objective, but also that such common objective is directed towards pleasure, recreation, and other non-profitable purposes. Thus, a social club formed to assist its members in their business endeavors through study and discussion of problems and other activities at weekly luncheon meetings does not qualify for exemption since any social activities at the luncheon are merely incidental to the business purpose of the organization.

Revenue Ruling 69-635, C.B. 1969-2, 126, holds that a commingling of members must play a material part in the activities of the organization before a section 501(c)(7) exemption can be granted.

Revenue Ruling 58-589, C.B. 1958-2, 266 states that in making a determination on whether an organization comes within the provisions of section 501(c)(7) of the Code, all facts pertaining to its form of organization, method of operation and activities should be considered. An organization must establish (1) that it is

[REDACTED]

a club both organized and operated exclusively for pleasure, recreation and other non-profitable purposes and (2) that no part of its net earnings inures to the benefit of any private shareholder or individual. To meet the first requirement, there must be an established membership of individuals, personal contacts and fellowship. A commingling of the members must play a material part in the life of the organization.

Arner v. Rogan, 40-2 U.S.T.C. holds that clubs must have members actively sharing interests or goals, as evidenced, for example, by appropriate prerequisite conditions or limitations upon members. It is insufficient, for purposes of this tax exemption, for an organization to be able to demonstrate a common objective or interest of the members; commingling is essential.

Barstow Rodeo and Riding Club v. Commissioner, 12 T.C.M. 1351 (1953) holds that a club must have an established membership of individuals, personal contacts and fellowship.

Based on the information presented, we have concluded that you do not qualify for exemption as an organization described in section 501(c)(7) of the Code. Specific factors of your organization support that you are primarily organized for the benefit of members of [REDACTED], a for profit entity. Your articles of incorporation state that your primary activity is to provide an alcoholic beverage service to the members of the club. Members of [REDACTED], a for profit entity are automatically members of [REDACTED]. You have no membership application, and there are currently no membership dues. Your organization does not have any organized social activities at this time.

You are similar to the organization described in Revenue Ruling 66-225, supra. You are providing entertainment for your members, and you are operating as an integral part of a for profit entity. [REDACTED] has [REDACTED]% corporate membership. Actual breakdown of corporate verses individual revenue is not available.

Like the organization described in Revenue Rule 74-489, supra, you offer corporate membership and no other qualifications are required in order to become a member of your organization.

You do not comply with Revenue Ruling 69-527 supra. You members are not bound together by an objective which is directed towards pleasure, recreation, and other nonprofitable purposes.

Thus, you do not qualify for exemption under Code section 501(c)(7) or any other section of the Code.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED] [REDACTED]

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 5018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

[REDACTED]

[REDACTED]  
District Director

Enclosures:  
Publication 892  
Form 5018